COMPLETE

BOOK - KEEPING

IN FOUR LESSONS

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By

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TORONTO
WILLIAM BRIGGS
1911

PREFACE

THIS little work is designed for the especial help of clerks, stenographers and book-keepers who have even some slight knowledge of book-keeping, but not sufficient grasp of the essential points to enable them to take a position, the scope of which calls for a practical working knowledge of this subject. The discrepancy which exists between the large number of book-keeping text-books now upon the market, and the facts and conditions confronting the beginner in actual practice is so great that we do not claim for this little work that it contains the solution for every contingency which may arise, but we feel assured that it will greatly help those for whose benefit it is intended, to reconcile theory with practice.

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TORONTO, Ont., Nov. 1st, 1911.

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BOOK-KEEPING

LESSON ONE

Single and Double Entry Compared

In Single Entry book-keeping, as the name implies, only a partial entry is made of each transaction. When goods are sold for cash, as a rule no entry is made in the books until the hour of closing the business each day, when cash is debited with the aggregate of the day's cash sales. No credit entry is made in connection with this part of the day's business. When goods are purchased for cash, the amounts thus expended are credited to cash each day, but no debit entry is made. When goods are sold on credit, the customer is debited, but no credit entry is made, and when goods are bought on credit, the creditor is credited, but no debit entry is made. In the latter case it frequently happens that no entry whatever is made until the invoice is paid, the invoice being kept on file as the only record of the debt. When wages, or rent, or other expense is paid in cash, the cash account is credited, but no debit entry is made.

When it becomes necessary or desirable to know how the business is progressing, it is essential to take an inventory of the stock-in-trade and make a statement of affairs. This statement will show on the right hand side the amount owing by customers to whom goods were sold on credit; the amount of goods in stock, as shown by the inventory, and the amount of cash on hand, as shown by the cash book, with such other assets as appertain to the business. On the left hand side will appear the amount owing to creditors for goods purchased on credit, the wages, rent, or other expense accrued but not paid, and such other debts as may be owing or incurred. The balance, being the amount required to be added to the footing on the left side to make the total equal to that on the right side, will be the net capital—the net worth of the business investment. If a statement is available showing the net capital at any prior date, then the difference between the net capital as shown by the current statement and as shown by the prior statement will be the profit or loss for the period since last statement.

Double Entry

The underlying principle of the Double Entry System of Book-keeping is that every entry made must be a double one, that is, it must show a debit and a credit. When goods are sold for cash the cash account

is debited with the total of the day's cash sales at the close of business each day, and sales account is credited with the same amount. When goods are purchased for cash the amounts expended are credited to cash account, and debited to merchandise or purchase account. When goods are sold on credit, the customer is debited and sales account is credited. When goods are bought on credit, the creditor is credited and purchase account is debited. When wages, rent or other expense is paid, cash account is credited and wages account, or rent account or other expense account is debited.

Assuming that the books of any business have heretofore been kept by Single Entry, and that it is desired to change to the Double Entry System, we would require to make up a statement of affairs as outlined above, and deduct from net capital shown thereon, the net capital shown on last previous statement in order to ascertain the profit made from last statement up to the present. This profit would be credited to proprietor's account. Then a journal entry would be made debiting the asset accounts, that is all the accounts shown on right side of the statement of affairs, and crediting the liability accounts, that is those shown on the left side of the statement of affairs, the balance shown on the left side, being the net capital to be credited to capital (or proprietor) account.

Some of these accounts being already in ledger, by

checking them off against the journal entry and posting into the ledger such of the accounts as are not yet opened, the balances in ledger will produce a perfect trial balance. It is quite proper, but rarely necessary, to carry the cash account totals in the ledger. The ledger accounts are, of course, credited with the amounts entered on debit side of cash account and debited with the amounts entered on credit side of cash account. The balance of the cash account may be transferred from cash book, therefore, direct to the trial balance. It may be added that the trial balance is a list of the accounts showing opposite each the balance or difference between the two sides of such account; the debit balances being in one column and the credit balances in another. If the total of each column is the same, then the books are in balance and it is clear that they should be so if the work is accurately done, when no entry is made at any time, unless it is a double entry, unless a credit is made every time a debit is made and *vice versa*.

An illustration from actual practice will better reveal the superiority of Double Entry over Single Entry, and at the same time make clear the great difference between the two systems:

Smith and Brown are partners, dividing profits and losses equally, Smith's invested capital being $5,000 cash and Brown's $6,000 cash, the profits to be determined and divided without calculating interest on the

capital nor on the partners' drawings. At the end of the first year's business the following figures are taken from their books, records, files and inventories, and we are required to prepare a statement of affairs; credit the proprietors' accounts with their respective shares of the profit and make the journal entry necessary to change the books from Single to Double Entry.

Brown, Capital a/c	$6,000 00
" Drawing a/c	300 00
Smith, Capital a/c	5,000 00
" Drawing a/c	500 00
Cash in Bank	5,000 00
Merchandise per Inventory	7,000 00
Store Fixtures per "	300 00
Accounts payable per Schedule of Creditors Invoices unpaid	1,000 00
Accounts Receivable per Ledger Balances due by Customers	1,800 00
Wages earned but not yet due	800 00
Bills Receivable per Bill Book	2,000 00

STATEMENT OF AFFAIRS.

LIABILITIES.

		$ c.
Accounts Payable		1,000 00
Wages accrued		800 00
Capital:		
Brown	$6,000 00	
Less drawings	300 00	
	$5,700 00	
Half profit	2,050 00	
		7,750 00
Smith	$5,000 00	
Less drawings	500 00	
	$4,500 00	
Half profit	2,050 00	
		6,550 00
		$16,100 00

ASSETS.

	$ c.
Cash	5,000 00
Accounts receivable	1,800 00
Merchandise	7,000 00
Fixtures	300 00
Bills receivable	2,000 00
	$16,100 00

It will be noted that the profit distributed equally between the two partners as above amounts to $4,100.00. This figure is arrived at as follows:—

Total present assets per statement as above	$16,100 00
Additional advances to partners not entered with Assets but deducted from Liabilities...........	800 00
	$16,900 00
Liabilities as above..................................	1,800 00
Present net Assets	$15,100 00
Commencing net Assets................................	11,000 00
Profit for period....................................	$4,100 00

Journal entry to change from Single to Double Entry:—

Cash	Dr.	$5,000 00	
Accounts Receivable	"	1,800 00	
Merchandise Inventory.............	"	7,000 00	
Fixtures	"	300 00	
Bills Receivable..................	"	2,000 00	
To Accounts Payable	Cr.		$1,000 00
Wages Account...........	"		800 00
Capital A/c.—Brown......			6,000 00
" "			1,750 00
" Smith			5,000 00
" "			1,550 00

The accounts likely to be found in the cash book and ledger are so checked in the margin, and by posting the remaining items into the ledger the books will be in shape for Double Entry. An account will be opened for each debtor whose indebtedness is included in the

total accounts receivable, as well as for each creditor whose credit is included in the total accounts payable.

Under the Single Entry System, the necessity of taking stock to ascertain the present standing, has been shown.

It is true that under the Double Entry system it is also necessary to take stock in order to ascertain the present standing with exactness, but a reasonably correct and valuable estimate of present standing may be made in this way:—

The proprietors know the percentage of profit at which the goods are marked for sale. If the average percentage of gross profit is 20 per cent., then 100-120ths of the amount at credit of sales account will represent the cost of the goods sold. By deducting this cost so ascertained, from the purchase account plus amount of inventory at commencement of period, we have a fair estimate of the present stock without actually taking stock, and the profit may be worked out from this basis as outlined.

Under the Double Entry System the expenses are classified under appropriate and descriptive captions, and the ratio of each of these to the gross sales or turnover, as compared with former periods is of great value to the proprietor in locating and remedying the cause of any loss or decrease in profits, while under Single Entry, the source or cause of any loss or decrease of profits can only be surmised.

LESSON TWO

The Day Book

The day book is the record kept of the day's business, and may be found in all shapes and sizes to suit the requirements of each particular business. Retail stores generally use cash registers, and the tapes taken off these at the close of each day show the amount of cash sales; credit sales; and cash received on account. These amounts are entered in the day book. The cash sales are not detailed or particularized in any way in the day book, the tape being filed for ready reference if needed. The credit sales are entered in detail, that is the corresponding slips are taken from the cash register drawer and the amount purchased by each customer entered opposite his name in day book, so that it may be posted into his ledger account. As a rule in addition to this, the full details given on the counter sale slips are entered in a special monthly customers' statement book, and the totals on such monthly statements are seen to agree with the total at debit of each customer in ledger. A carbon copy of each statement is preserved for permanent file, and this constitutes, as will be seen, an important feature of the day book, being the source of the day book entries as far as they relate to credit sales. The cash received on account is also entered in

detail in day book, the name of, and amount paid by, each customer being given, so that the payments may be properly entered in cash book, and then credited to the customers' accounts in ledger.

In various other businesses, such as wholesale, or manufacturing, the day book is entirely different, consisting generally of carbon copies of the invoices of goods sold or shipped. These copies are made on loose sheets punched in such manner that they can be filed in binder cover daily. The posting is made from this binder into the ledger. The invoices received covering purchases made are entered in a separate book usually termed a register of accounts payable, from which the posting to ledger is made.

It should be understood that the day book, being the book of original entry, that is, where the book-keeping begins, should be so framed or designed as to answer the needs of the business most readily. The system which gives easy and ready reference from the ledger to the source and detail of the entry is undoubtedly the best.

LESSON THREE

The Journal Ledger and Cash Book

Keeping in view the object of these lessons, but little need be written about the journal, the functions or scope of the journal being very frequently combined with those of the day book in a combination day book and journal as outlined in previous lesson, the posting being made direct into ledger from the records mentioned.

In most businesses, however, special journal entries have to be made from time to time, and these should invariably be made in the same book and be characterized by full particulars of the entries and reasons for making such entries.

A simple illustration will be found in the payment in January of insurance premiums covering a year in advance. This payment is generally charged to insurance expense account. If the fiscal year of the business ends in June, a journal entry must be made in June, crediting insurance expense account with the unearned premium and debiting insurance unearned account. The reason for this is that all ordinary expense accounts are closed into profit and loss account, as will be shown later on, and the unearned insurance premium being an asset, must so appear on the balance sheet.

Similarly to the day book and journal, the cash book

is generally found in the form designed to meet most readily and satisfactorily the needs of each particular business. If the cash receipts are derived from various sources and a large percentage of them are derived from a particular source, then a special column is invariably assigned in cash book to the receipts from this particular source, in order that they may be assembled and the total thereof posted in one sum at end of month into ledger to the credit of the account producing the receipts. The entry in the cash book itself on the debit side covering these receipts constitutes the debit corresponding with the credit in the ledger.

The cash account is not necessarily kept in the ledger, but the entries on the debit side of the cash book must be posted to the credit of the proper accounts in ledger and the entries on the credit side of the cash book must be posted to the debit of the proper accounts in ledger, so that when these accounts are all taken off on the trial balance at end of month, along with the balance of the cash account from cash book, they will produce a perfect trial balance. It may be added here that bills receivable, (promissory notes receivable) received in payment of debts, and bills payable (promissory notes payable) given in payment of debts, are entered in small registers called bill books, specially designed to show the date of issue, amount, and date of maturity of each bill, and at the end of each month

journal entries are made as follows: For amount of bills receivable, the accounts which they settle are credited and bills receivable account in ledger is debited. This has the effect of closing the personal accounts in Ledger settled by promissory notes and assembling all such notes in one account in ledger, the details being carried in the bill books. For amount of bills payable, the accounts which they settle are debited and bills payable account in ledger is credited. When the bills receivable are paid at maturity, the cash account is debited in cash book and this item posted into ledger to the credit of bills receivable account. Similarly when bills payable are paid, the cash account is credited in cash book and the item posted into ledger to debit of bills payable account.

LESSON FOUR

The Trial Balance, Profit and Loss Account and Balance Sheet—Closing a Set of Books

As mentioned in a previous lesson, the trial balance is a list of the balances so arranged that the debit balances appear in one column and the credit balances appear in another, and the total of each column must be the same if the work is correctly done. If the books are accurately opened up, and all entries during the period up to date of preparing the balance sheet correctly made, then the footings of the debits and credits on trial balance will agree. If they do not agree, it indicates an error somewhere, and the work must be checked over until the error is discovered and rectified. In the case of a man commencing business by a cash investment of $10,000 he opens his books on the Double Entry principle by debiting cash account in cash book with $10,000 and crediting capital account in ledger with $10,000. A trial balance taken off his books at this stage of progress would be as follows:

TRIAL BALANCE.

Folio,		Account.		Dr.	Cr.
CB1	....	Cash	....	$10,000 00	
L1	....	Capital	....		$10,000 00
		Totals	....	$10,000 00	$10,000 00

If the Double Entry principle is faithfully followed therefore, all through the period, the next trial balance taken off, even if not taken off for a year or more, and the entries during such period are of large volume, will be still in perfect balance.

THE PROFIT AND LOSS ACCOUNT.

This account is a summary of all the accounts representing earnings or expenses. The difference between earnings and expenses on the one hand, and receipts and expenditures on the other hand should be clearly understood. A rental on property may be earned and accrue in December, but not be actually collected until the following year. The earning should, nevertheless, appear in the profit and loss account for the period in which it actually accrued. The collection of the rental in the following year would come under the head of receipts but would not affect the earnings of such year in any way. The profit and loss account is therefore debited with the amounts of all the expense accounts and credited with the amounts of all the earning accounts, and the net balance of the profit and loss account is the net profit or loss for the period covered by such account. First the amount at the debit of inventory account, being the amount of stock-in-trade on hand at commencement of period, is entered on the debit side of the profit and loss account. Next,

the amount at the debit of purchase account, being the amount of purchases made during the period, is entered on the debit side of the profit and loss account. From the sum of these two amounts is deducted the amount of stock-in-trade on hand at end of the period. The items appearing next at the debit of profit and loss account are the running expenses, such as wages, travelling expenses, rent paid out and such other expense as may have been incurred during the period, in connection with the business. The profit and loss account is credited with the total sales and such other earnings as may have accrued in connection with the business, and the net balance of the profit and loss account so prepared is the net profit or loss according to the side upon which it appears.

If the credits are greater, the balance is a credit balance, and is therefore a profit. If the debits are greater the balance is accordingly a loss. A journal entry is now made, crediting all accounts appearing on the debit side of the profit and loss account and debiting the latter account. Similarly a journal entry is made debiting the sales account and such other accounts as appear on credit side of profit and loss account and crediting the latter account. When these entries are posted, the earning and expense accounts will be closed, leaving upon the ledger only such accounts as represent assets or liabilities. This brings us up to

the balance sheet which is, in other words, a statement of the assets and liabilities, sometimes called a financial statement.

All balances representing assets, being debit balances, are for some reason which is not apparent, probably from force of usage, customarily shown in this country on the right side of the balance sheet, and all balances representing debts or liabilities are shown on the left side of the balance sheet. The amount of stock-in-trade on hand, as deducted on debit side of profit and loss account, is properly entered on balance sheet as an asset, and the profit, which is owing by the business to the proprietors, is entered on the balance sheet as a liability.

The balance sheet will be in perfect balance the same as is the trial balance from which it is prepared.

A [illegible] understanding, indeed we consider a good grasp on the general principles of Double Entry Book-keeping, will be obtained by re-reading the above with interest and the following practical illustration.

From the following trial balance dated December 31, 1910, prepare profit and loss account and balance sheet:—

TRIAL BALANCE.

Fol.	Account	Dr. $ c.	Cr. $ c.
1	....Robertson, J.—Capital		20,000 00
5	....Cash on hand	10,000 00	
10	....Inventory A/c., Dec. 31st, 1909 ...	15,000 00	
15	....Purchase Account	35,000 00	
20	....Sales Account		60,000 00
25	....Accounts Payable...............		15,000 00
30	....Accounts Receivable	29,000 00	
35	....Furniture and Fixtures	2,000 00	
40	....Wages	3,000 00	
45	....Other Expenses	1,000 00	
		$95,000 00	$95,000 00

Inventory of Stock-in-Trade taken Dec. 31, 1910, shows goods on hand worth...... $10,000 00

With this data before us, the preparation of the profit and loss account is simple and easily understood. The procedure and form are as follows:—

Journal entry to close revenue and expense accounts into profit and loss accounts:—

Profit and Loss Account : Dr., $54,000 00
To Inventory A/c., 12/31/09............ $15,000 00
Purchase A/c....................... 35,000 00
Wages A/c. 3,000 00
Other Expenses 1,000 00
Sales Account : ....Dr., $60,000 00
Inventory Account, 12/31/10 : " 10,000 00
To Profit and Loss A/c................ $70,000 00

The posting of above entries will close out all accounts except those appearing on the balance sheet.

PROFIT AND LOSS ACCOUNT.

Dr.		Amount. $ c.	Cr.	Amount. $ c.
To Inventory, 12/31/09..	$15,000 00		By Sales	60,000 00
" Purchase A/c........	35,000 00			
	$50,000 00			
Less Invy., 12/31/10..	10,000 00	40,000 00		
" Wages........................		3,000 00		
" Other Expenses		1,000 00		
" Balance		16,000 00		
		$60,000 00		$60,000 00

On the one side is entered by the process outlined the goods sold at cost, with the expense of selling them, and on the other side the gross revenue, the balance or excess of gross revenue over the expense being the net revenue or profit.

The next step, that of preparing the balance sheet. is equally simple, once the underlying principle is understood.

BALANCE SHEET.

LIABILITIES.	AMT. $	c.	ASSETS.	AMT. $	c.
Accounts Payable	15,000	00	Cash on Hand	10,000	00
Robertson, J., Capital	20,000	00	Stock in Trade	10,000	00
" Profit	16,000	00	Accounts Receivable	29,000	00
			Furniture and Fixtures	2,000	00
	51,000	00		51,000	00

In order to close up the above accounts, the reason for closing them out, or disposition made of the assets and liabilities, would necessarily affect the procedure.

If Robertson were to retain the cash on hand and sell his business for $35,000 cash, the purchaser to assume the liabilities, the closing entries would be as follows:—

Cash: Dr. $35,000 00.
To Realization A/c $35,000 00

The debit side of this entry would appear in the cash book. Then the assets would be transferred as follows:—

Realization A/c: Dr. $41,000 00	
To Inventory, 12/31/10	$10,000 00
A/cs. Receivable	29,000 00
Furniture and Fixtures................	2,000 00
Accounts Payable: Dr. $15,000 00	
To Realization A/c	15,000 00

The realization account now shows a credit balance of $9,000, which would be transferred as follows:—

Realization A/c.: Dr., $9,000 00
To Robertson, J.—Cap. A/c...............$9,000 00

This closes out all accounts but cash account and J. Robertson's account, and the following entry would close these:—

Robertson, J., $45,000 00		
To Cash		$45,000 00
These figures are confirmed by taking the gross assets, which amount to...........		$51,000 00
and deducting the cash..........	$10,000 00	
A/cs. p.	15,000 00	
		25,000 00
		$26,000 00
Sale Price		35,000 00
Profit on Sale		9,000 00
Capital Investment		20,000 00
Profit on Business		16,000 00
		$45,000 00

*A companion treatise, dealing with some higher phases of accounting, such as Partnership, Insolvency, Executorship and Earning Power of Capital, is nearing completion, and applications for copies from those contemplating the study of these subjects, are now being booked. The price is $2.00, postpaid.